GOVERNMENT OF INDIA
FINANCE AND COMPANY AFFAIRS
LOK SABHA

UNSTARRED QUESTION NO:2575
ANSWERED ON:07.03.2003
REPO MARKET FOR NON BANKING PLAYERS
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Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

(a) whether the RBI has decided to open up the repo market to non-banking players;

(b) if so, the details thereof;

(c) whether any conditions have also been laid down for such entities; and

(d) if so, the details thereof?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE AND COMPANY AFFAIRS (SHRI ANANDRAO V. ADSUL)

(a) & (b): Reserve Bank of India (RBI) has intimated that earlier only banks, primary dealers and certain financial institutions, which maintained a separate scripless/dematerialised account for Government Securities known as Subsidiary General Ledger (SGL) Account with RBI, Mumbai were permitted to undertake repo transactions in Government Securities.

Vide its notification dated 22nd January,03 RBI has extended the eligibility for ready forward contracts to certain category of entities like any primary dealer authorised by the Reserve Bank of India; non-banking financial companies registered with RBI;housing finance companies registered with National Housing Bank;mutual funds registered with SEBI and insurance companies registered with the Insurance Regulatory Development Authority.

This has been done in order to deepen the market for Government Securities and increase the number of players in the market, These players do not have an SGL account but nevertheless have an account known as `Gilt Account` with a bank or institution (custodian) having a separate SGL account known as `Constituent SGL Account`with RBI for the purpose of putting through transactions in Government Securities on behalf of their constituents.

(c) &(d) Certain terms and conditions have been stipulated for these new players for the purpose of conducting transactions in repo market. They are:-

(i) the bank or institution acting as custodian can not conduct a repo transaction with its gilt account holder;

(ii) no two institutions having gilt accounts with the same custodian can enter into a repo contract; and

(iii) no co-operative banks can undertake repo transactions with non-banking financial companies.

Other terms and conditions subject to which repo may be entered are as under :

1. All repo contracts shall be reported on the Negotiated Dealing System (NDS).In respect of ready forward contracts involving gilt account holders, the custodian (i.e., the CSGL account holder) withwhom the gilt accounts are maintained will be responsible for reporting the deals on the NDS on behalf of the constituents (i.e. the gilt account holders).

2. The custodians should put in place an effective system of internal control and concurrent audit to ensure that:
(i) ready forward transactions are undertaken only against the clear balance of securities in the gilt account,
(ii) all such transactions are promptly reported on the NDS, and
(iii) other terms and conditions referred to above have been complied with.

3. The RBI regulated entities like banks and NBFCs can undertake ready forward transactions only in securities held in excess of the prescribed Statutory Liquidity Ratio (SLR) requirements.